

2014 Annual Report



**Musicians' Pension Fund
of Canada**

This report is available in English and French. Please contact the Fund office to advise in which language you would prefer to receive your Pension Plan communications.

INTRODUCTION

Welcome to the Musicians' Pension Fund of Canada 2014 Annual Report. This report provides members and other beneficiaries of the Plan with an overview of the financial position of the Plan and includes information about Plan membership, benefits paid and Plan governance.

MISSION STATEMENT

To administer the Plan in a prudent manner to ensure its long-term viability in order to provide the best possible retirement benefits to the Fund's members and beneficiaries.

CONTENTS

- 1 Plan information at a glance
- 2 Message from the Chair
- 3 Message from the Executive Director
- 4 Plan Governance
- 5 How the Plan works
- 6 Financial position of the Plan
- 7 Financial statement summary
- 8 Pension assets and investments
- 9 Performance of the Fund
- 10 Major asset classes
- 11 Membership data and benefit payments
- 12 Fund expenses
- 13 Fund office

Plan information at a glance

The Plan had **13,736 members** at the end of 2014.

13,736

Close to **\$33 million in pension payments** were made in 2014. The Fund also paid out \$3.4 million in termination and death benefits for the year.

\$33 million

Fund **assets increased** from \$688 million at the end of 2013 to \$734 million at the end of 2014.

6.69%

The Fund's overall **rate of return was 11.1%** for 2014 — slightly less than the benchmark of 11.5%.

11.1%

The five-year overall **rate of return was 9.0%** as of December 31, 2014.

9%

Professional fees of \$3.458 million and operating expenses of \$1.544 million, totalling **just over \$5 million** for 2014, represented 0.68% of assets at year end.

0.68% EXPENSES

Total employer **contributions were \$9 million** to the Fund for 2014 compared to \$10 million in 2013.

\$9 million



Stanley J. Shortt
Chair

Message from the Chair

Welcome to the 2014 Annual Report on your Fund. From the performance highlights in this report, the Fund performed reasonably well but long time low interest rates continue to negatively impact our growth.

We also need more years of good revenue generation to regain the significant market downturns in 2000 to 2002 and 2008/2009.

As you would expect, we utilize professional advisers in guiding our monitoring and decisions related to your Fund. We have an outstanding, seasoned team of advisers, who we assess annually, representing actuarial, audit, benefits, investments and legal specialties.

Pension fund management is increasingly complex for any size of plan. The fact that your Fund is managed by a superb team headed by Ellen M. Versteeg-Lytwyn, Executive Director, is of huge value to our members and Trustees. Although this report covers 2014 highlights, I did want to tell you that a new Trustee has joined the Fund this spring. He is Bernard LeBlanc. Bernard has been a member of the

AFM/CFM since 1990. A musician in his own right, Bernard has managed personnel for symphony orchestras and club date events in Montreal, and is currently the CFM Director of Symphonic Services. We are pleased that Bernard brings his unique background and perspective to his newest role with the Fund.

This year, we are adding photographs of all our Trustees as well as a group picture of the Fund office staff, so you can put some faces to names you may have heard.

Though the financial, legislative and regulatory challenges continue, I do enjoy my participation in the Fund and, on behalf of your Trustees, I look forward to reporting to you again after the end of 2015. Thank you.

Stanley J. Shortt
Chair

Message from the Executive Director

Let me start by thanking everyone for the overwhelming and positive response to our inaugural Annual Report (2013).

Although we are required to communicate this information to you, we would like the Annual Report to be a document that you will want to keep, year to year.

In 2014 we said goodbye to data manager Pirkko Vega (Jarvenpaa). Pirkko retired after forty years of service in the Fund office. She came to know so many of you over the years and I know that you join me in wishing her all the best as she moves forward into this important phase of her life.

The member self-serve portal on our website was launched and continues to be well received by our members. This important feature allows members to look up contribution information, make changes to personal data and do pension estimates. Your comments have been very helpful in making sure that our self-serve portal works well and incorporates the features you want. Moving forward, we are

implementing enhanced security on the website. This is especially critical now that we have the member self-serve portal in place.

Also, look for our web re-design which will make it easier and faster to navigate through the site and provide an overall improved user experience.

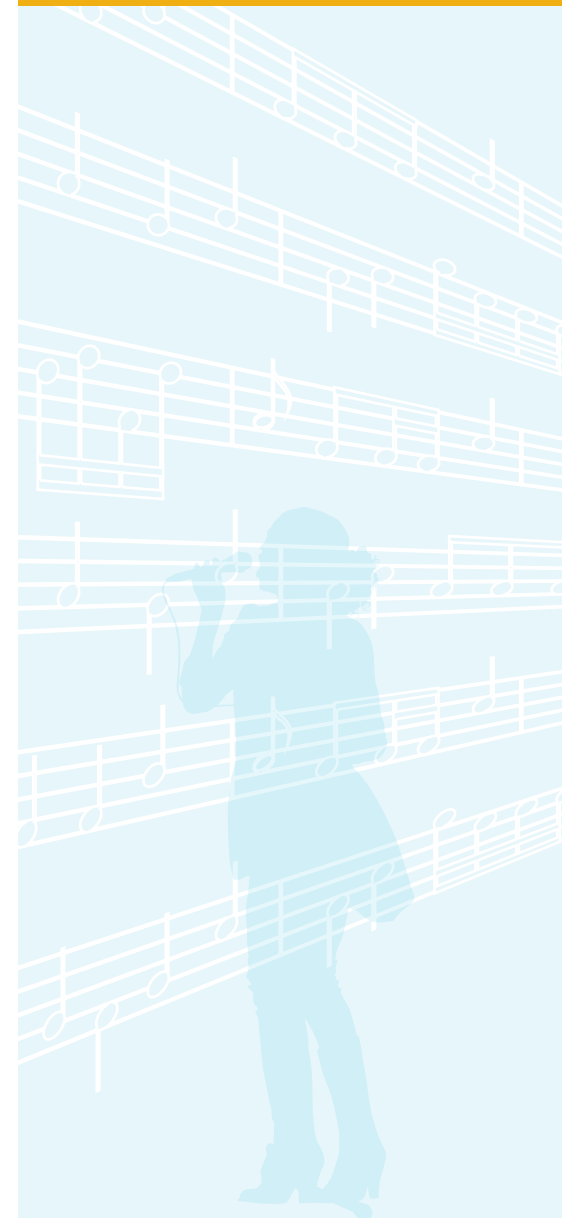
You will notice that our financial position is looking fairly strong but we need to curb our enthusiasm due to our funding challenges which are greatly affected by low interest rates. Low interest rates are great when buying a house but they wreak havoc on pension funds.

My thanks to the Board of Trustees for their hard work and unwavering support, as well as to my staff for the great work they do on behalf of the members each and every day.

Ellen M. Versteeg-Lytwyn
Executive Director



Ellen M. Versteeg-Lytwyn
Executive Director



Plan Governance



BOARD OF TRUSTEES: (left to right) Harold Redekopp; E. Eddy Bayens, Vice-chair; David J. Jandrisch; Stanley J. Shortt, Chair; Bernard LeBlanc; and John G. Sinclair.

Plan governance starts with the mission statement: To administer the Plan in a prudent manner to ensure its long-term viability in order to provide the best possible retirement benefits to the Fund's members and beneficiaries.

The Plan is administered by a Board of Trustees established in accordance with the Trust Agreement.

BOARD OF TRUSTEES

Stanley J. Shortt, Chair

E. Eddy Bayens, Vice-chair

David J. Jandrisch

John G. Sinclair

Harold Redekopp

Bernard LeBlanc

Plan governance refers to the system used to organize the roles and responsibilities of all persons involved in running a pension plan and it also promotes the timely and cost-effective delivery of benefits.

Among other things, the Board of Trustees is responsible for hiring and monitoring an Executive Director to manage the daily operations of the Plan and Fund, for hiring various professionals including legal counsel, the Plan actuary, investment counsel and auditors, to assist where needed, and for monitoring of the Fund's overall operations and performance.

The Board meets on a regular basis to ensure proper Plan and Fund governance. This means that they continuously strive to ensure the overall direction, effectiveness, supervision and accountability of all aspects of Plan and Fund operations.

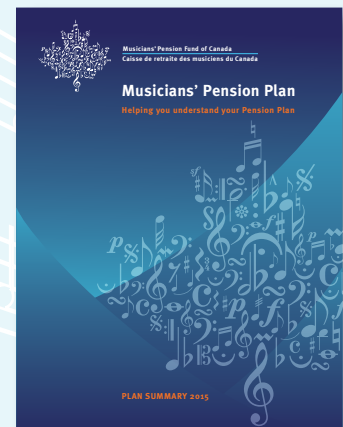
How the Plan works

Our Pension Plan is a target *defined benefit* plan.

Contributions are negotiated with employers by the AFM/CFM and its Locals. Therefore, it is not possible to seek additional contributions in the event that either: (i) assets are not sufficient to pay for pension benefits earned or (ii) current contributions are not sufficient to pay for current benefits being earned. Accordingly, pension legislation and the Plan rules require the Trustees to make changes to the Plan's promised pension benefits based on affordability, when necessary. This was the reason for the changes made to the Plan effective January 1, 2013.

Your retirement benefit is calculated according to a set formula that is based on the contributions received from employers on your behalf. It also depends on the age at which you retire and certain other factors including the type of survivor benefit you choose.

Plan assets are held in trust by an independent custodian in accordance with pension legislation. The Fund is invested in a diversified portfolio of assets and managed by professional investment managers. The Plan complies with the Income Tax Act (Canada) and the various provincial pension benefits acts across the country.



To learn more about the Plan, please visit the website and look for the Plan summary.



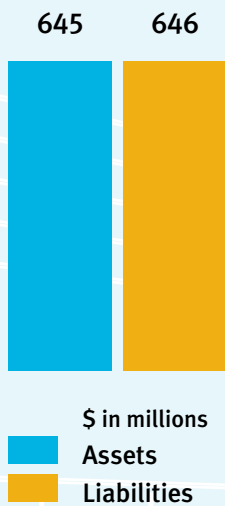
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Financial position of the Plan

Pension legislation generally requires that the Trustees must have an actuarial valuation of the Plan done at least once every three years by an independent third-party actuary. The purpose is to determine the financial position of the Plan and to ensure that the Plan is appropriately funded. The results are filed with the Financial Services Commission of Ontario (FSCO).

ACTUARIAL ASSETS VERSUS
ACTUARIAL LIABILITIES
At January 1, 2014



It is important to note that the Trustees cannot focus only on assets and Fund rates of return — the assets are there to support the payment of benefits, so the Trustees also need to focus on this essential comparison of assets versus liabilities.

Financial position refers here to a comparison of the assets of the Plan with the liabilities (or cost of benefits). This is different from the Plan's financial statements, which show year-over-year changes in the assets alone.

As of January 1, 2014, the Plan had a deficit of approximately \$1.5 million. The deficit represents less than 0.25% of the total liabilities.

The valuation also has to determine whether yearly contributions are sufficient to pay for the benefits accruing each year. Although the actuarial valuation showed that contributions are presently sufficient to cover the cost of benefits accruing in 2014, there is some concern around life expectancy. As life expectancy increases, pensions get more expensive and, even though we have seen considerable improvements in life expectancy to date, it seems further improvements are expected going forward.

The cost of benefits includes paying off the small deficit over a period of 12 years. The total cost of benefits for 2014, including an allowance for administrative expenses, represents approximately 98% of expected contributions for 2014.

You may recall that the Plan was changed so that only one-half of the contributions made on a member's behalf on and after January 1, 2013 would be used in the calculation of benefits. The other one-half of post-2012 contributions are considered sustaining contributions to support the actual cost of benefits earned each year.

Actuarial valuations are based on many assumptions about the future, including expected investment return, mortality rates, retirement age, number of members expected to retire with a spouse at the time of retirement, etc. The fact that actual experience over time will differ from the assumptions made is the main reason that legislation requires a valuation to be performed at least once every three years. In a way, it's like steering a ship — when reality does not match the assumptions, periodic course corrections may be required.

The Trustees pay close attention to the results of each actuarial valuation. Future annual reports will continue to provide information about ongoing valuation results.

Financial statement summary

The Trustees are required by legislation to have audited financial statements prepared every year. The following is an extract from the audited financial statements for the years 2013 and 2014.

FINANCIAL STATEMENT SUMMARY (in thousands of dollars)	Plan year ended	
	December 31, 2014	December 31, 2013
Assets at beginning of Plan year	688,193	606,152
Increase in assets		
Increase due to investments		
Total investment income — e.g., interest, dividends	23,102	34,842
Realized gains (losses) on investments — from the sale of investments	27,923	958
Unrealized gains (losses) on investments — change in the value of investments held	26,869	74,795
Employer contributions	9,028	10,076
Total increase in assets	86,922	120,671
Decrease in assets		
Monthly pension benefits	32,997	30,908
Death benefits	243	915
Termination payments and transfers	3,169	2,230
Plan expenses	5,002	4,577
Total decrease in assets	41,411	38,630
Assets at end of Plan year	733,704	688,193

If you would like to see more details about the audited financial statements, please visit the website. The complete audited financial statements for each year are posted there.



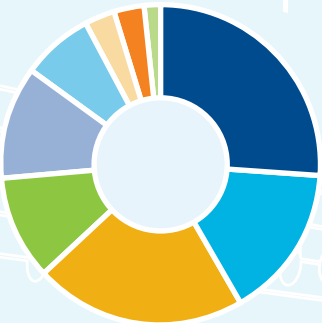
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

Pension assets and investments

The Fund is invested in a diversified portfolio as shown in the pie chart.

ASSET MIX

Actual investment mix as of December 31, 2014



	%	
	26.2	Bonds
	15.5	Canadian Equity
	21.6	US Equity
	10.4	International Equity
	11.5	Hedge Funds
	7.1	Real Estate
	3.1	Private Equity
	3.0	Infrastructure
	1.6	Cash & Equivalents

ASSET MIX AND DIVERSIFICATION

Asset mix (the allocation of assets amongst a variety of asset classes and geographies) is a key factor in managing investment risk and return. As indicated in the Chair's message last year, the Board of Trustees has restructured the Fund's investments to take more advantage of diversification opportunities. Diversification helps minimize the impact of a decline in a particular region or type of investment. As a result of the restructuring, you'll notice that we have a new asset class this year — Infrastructure.

Legislation is also a factor — for example, the Ontario Pension Benefits Act places limits on concentration in any one investment. The Income Tax Act

also has rules relating to the investment of pension Fund assets. These rules are there for the protection of the Fund, its assets and, by extension, members' benefits.

Another way the Fund diversifies is the use of multiple external investment managers. The Board chooses investment managers based on their expertise with particular asset classes and investment styles, among other things.

The diversification of the Fund's assets ensures that the assets are invested prudently in order to achieve the Fund's long-term investment objectives while at the same time managing investment risk.

Performance of the Fund

The total return for the year ended December 31, 2014 was 11.1% – slightly less than the overall Fund benchmark of 11.5%.

When evaluating the performance of any investment, it is important to compare it against an appropriate benchmark.

By law, the Board of Trustees must establish a Statement of Investment Policies and Procedures (SIP&P). The benchmarks used in the following chart are the ones established in the Fund's SIP&P. A copy of the SIP&P is available by written request to the Fund office.

The 2014 rate of return is good news (as was also the case in 2013); however, we do not expect this two-year result to have an impact on the level of Plan benefits, given the current financial position of the Plan.

The bar chart on the right shows the total Fund return against the benchmark for the one year ended December 31, 2014 and the five years ended as of the same date.

DEFINITION OF BENCHMARKS:

A benchmark is a standard against which the performance of a particular asset class is measured.

ASSET CLASS	BENCHMARK
Bonds	FTSE TMX Canada Universe Bond Index
Canadian Equity	S&P/TSX Composite Index
US Equity	S&P 500 (CAD)
International Equity	MSCI EAFE (CAD)
Hedge Funds	10% absolute return
Real Estate	10% absolute return
Private Equity	10% absolute return
Infrastructure	10% absolute return
Cash & Equivalent	FTSE TMX Canada 91-day T-bills
Total Fund	Composite of above

INVESTMENT RETURNS As at December 31, 2014

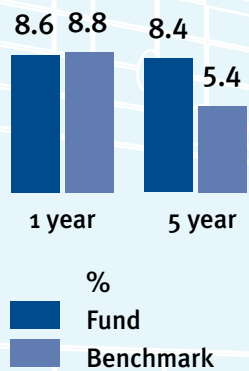


Major asset classes

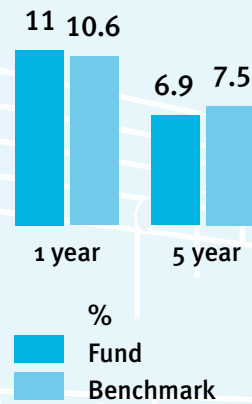
One-year and five-year rates of return as of December 31, 2014

Note – NA refers to the fact that some investment classes have existed within the Fund for less than five years. Also, there are no return rates shown for the category Infrastructure since it has existed for less than one year.

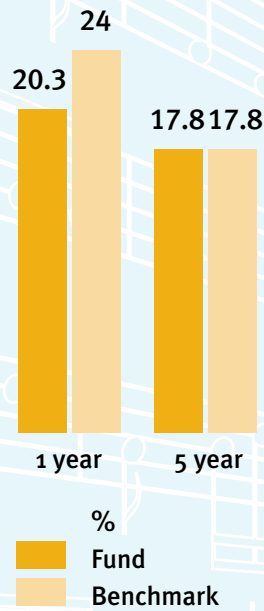
BONDS



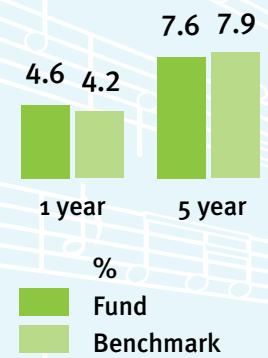
CANADIAN EQUITY



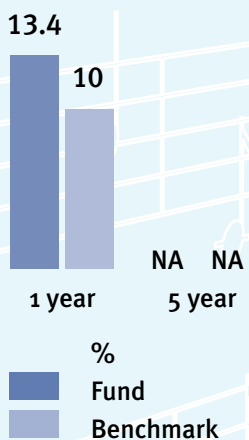
US EQUITY



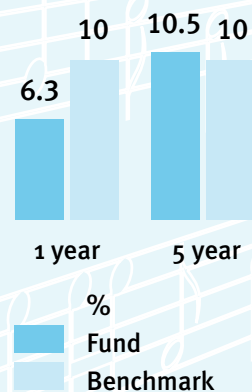
INTERNATIONAL EQUITY



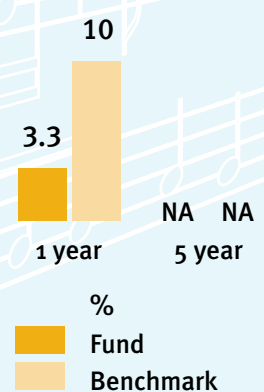
HEDGE FUNDS



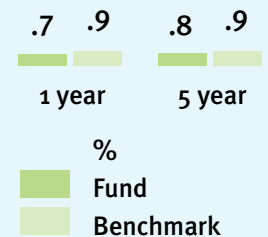
REAL ESTATE



PRIVATE EQUITY



CASH & EQUIVALENTS



Membership data and benefit payments

Plan membership has dropped very slightly (just over 3%) over the past year, as noted in the table and charts.

PLAN MEMBERSHIP SUMMARY

(as of December 31)	2014	2013	2012
Active	4,067	4,460	5,243
Pensioners and beneficiaries	2,808	2,690	2,505
Deferred vested	6,861	7,059	6,394
Total	13,736	14,209	14,142

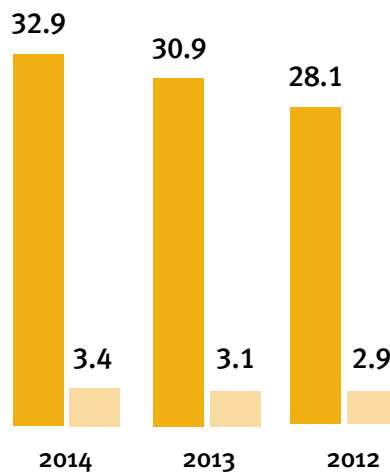
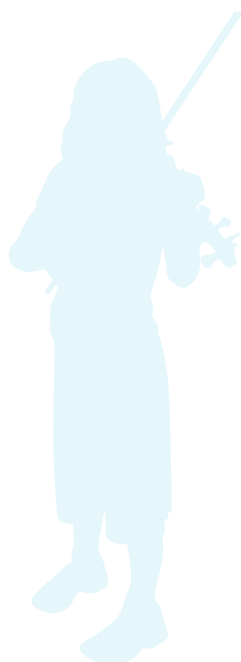
BENEFIT PAYMENTS

Over the past three years, the following benefit payments have been made:

(in thousands of dollars)	2014	2013	2012
Pension payments	32,997	30,908	28,092
Termination and death lump sum payments	3,412	3,145	2,867

In total, the Fund paid approximately \$36,409,000 in benefits in 2014, an increase of 17.6% over the total benefits paid in 2012.

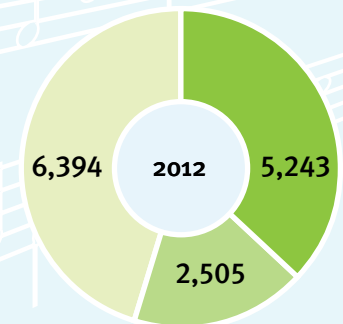
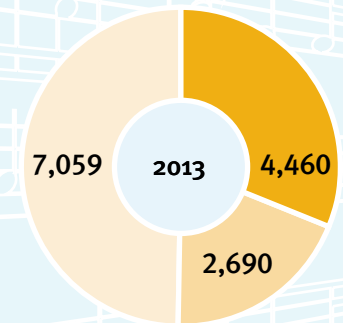
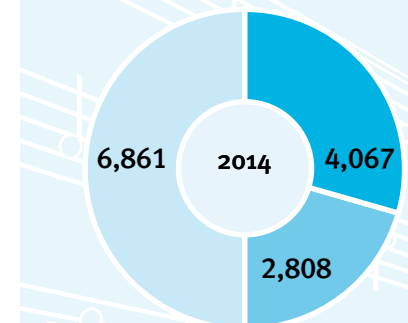
BENEFIT PAYMENTS



\$ in millions
■ Pension payments
■ Termination and death lump sum payments

COMPARATIVE PLAN MEMBERSHIP SUMMARY

As of December 31



2014 2013 2012
■ ■ ■ Active
■ ■ ■ Pensioners & beneficiaries
■ ■ ■ Deferred vested

Fund expenses

The Board of Trustees monitors all Fund expenses on a regular basis to ensure they are reasonable. The expenses for the past three years are outlined in the following table.

EXPENSES

(in thousands of dollars)	2014	2013	2012
Asset management	2,261	2,069	1,844
Professional fees	1,197	1,106	941
Operating expenses	1,544	1,402	1,340
Total expenses	5,002	4,577	4,125
Assets at year end	733,704	688,193	606,152
Total expenses as a percentage of net assets	0.68%	0.67%	0.68%

Please visit the website, you'll find answers to many questions there.



www.mpfcanada.ca

In the retail marketplace, individuals sometimes pay as much as three or four times this level of fees when investing in a balanced and diversified portfolio similar to that of the Fund. Fees are so low for the Fund due to the power of economies of scale — the Fund is large enough, at over \$700 million, to be able to achieve this low expense rate. This is good for the Plan, the Fund, and ultimately the Plan members who benefit from a low-cost pension delivery system.

Fund office



FUND OFFICE EMPLOYEES: (left to right) Humberto Martins, Director, Pension Benefits; Karen Gaulin, Bilingual Receptionist; Paul Versteeg-Lytwyn, Contract Processing; Nora Cid, Contract Processing; Ellen M. Versteeg-Lytwyn, Executive Director; Lisa DeWitt, Contract Processing; Dale MacDonald, Pension Benefits; and Jill D. Giustino, Director of Administration.

FEEDBACK/MORE INFORMATION

We welcome your questions, comments and feedback on this annual report, or on any other matter concerning the Plan. Please feel free to contact the Fund office:

Musicians' Pension Fund of Canada

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Suite A110
Toronto, Ontario M2J 4Y1

Telephone: 416.497.4702
Toll Free: 1.888.462.6666

Email: info@mpfcanada.ca

Please also consider visiting the website at www.mpfcanada.ca.
You'll find answers to many questions there.

DISCLAIMER

The Trustees expect to maintain the Fund indefinitely. However, they have the right, in accordance with applicable laws, to change or cancel any or all benefits under the Fund for active or retired members and their survivors and dependents.

This publication was prepared on behalf of the Trustees of the Musicians' Pension Fund of Canada. It provides summary information about the Fund in plain language. This publication is not intended to provide advice. If there is a discrepancy between this document and the legal documents that govern the Fund, the legal documents will apply.



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Photography: Donna Santos Studio



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of Canada**

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